

DETROIT PUBLIC SCHOOLS

Office of Inspector General



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File number: 2013-FA-0009

AUDIT REPORT

TO: William Aldridge, Chief Financial Officer
Karen Ridgeway, Superintendent of Academics
Beverly Hibbler, Principal, Detroit International Academy for Young Women

CC: Roy S. Roberts, Emergency Manager
Kevin A. Smith, Chief of Staff, Emergency Manager
Delores A. Brown, Deputy CFO and Chief Accounting Officer
Rebeca Luna, Assistant Superintendent
Lawanda Taylor, Director, Cash Management department

THRU: Wilbert V. Marsh, Inspector General
Odell Bailey, Deputy Inspector General - Audits

FROM: Bernadette Kakooza, CIA

DATE: April 22, 2013

SUBJECT: Detroit International Academy for Young Women – Financial Audit

BACKGROUND

Detroit International Academy for Young Women (DIA) is the first and only public all-girls program in Michigan, serving Kindergarten through grade 12. The school seeks to equip each young woman with a college preparatory curriculum; with emphasis on mathematics, science, and technology and leadership development.

For the current school year, DIA has an enrollment of 511 students. Ms. Beverly Hibbler is the founder and current Principal of the school since its inception in August 2005. Ms. Lenora Martin has served as the school's bookkeeper since September 2010. Each month, a third-party firm contracted through the Division of Finance - Cash Management department (Office of Accounting), prepares the monthly financial reports and bank reconciliations. DIA, like other schools, maintains a checking account to manage money that is collected from and/or raised by the students and school organizations.

The school's financial transactions are processed through First Independence Bank; the district's authorized banking institution. School and bank records indicate that, between July 1, 2011 and December 31, 2012, the school deposited \$72,040.51 in its general checking account and paid out \$66,808.75. As of December 31, 2012, the balance in this account was \$17,294.74.

The major sources of funds deposited into the school's account include: fundraising activities, community donations and monies raised through student activities. These funds are referred to as General School Funds, and are considered held in trust for the students' benefit, and generally used to support and offset the expenses for extracurricular and co-curricular student activities. DIA has 10 activity accounts including the general account. The other accounts are: Robotics, Senior Class, Yearbook, Breast Cancer Awareness, Performing Arts, National Honor Society, JROTC, Cheerleaders, and (restricted) Staff Social Fund.

School personnel are required to ensure accountability and fiscal integrity by complying with district procedures for the receipt, deposit, disbursement, and recording of funds. The district's School Financial Procedures Manual (SFPM) provides specific rules and guidelines for the handling of General School Funds (GSFs).

This report summarizes identified internal control deficiencies and noncompliance conditions; which, if not corrected, will adversely affect the overall financial position of the school. We also make recommendations on how internal controls can be improved. Those charged with the responsibility to establish, implement and maintain effective control processes are directly addressed on the first page of this report.

We provided a draft report to the school principal for review and comment. The principal's written response is included as an appendix to this report. Additionally, relevant comments made by school personnel during the fieldwork process are included in the body of this report.

EXECUTIVE SUMMARY

District procedures require school principals to establish controls over cash to assure that school monies are properly accounted for and that the school is operating in compliance with the District's financial policies and procedures. However, our audit revealed that the school did not always comply with district procedures in regards to the proper use of general school funds. We found that unallowable disbursements totaling \$1,732 were made from the school account, which included the following expenditures: staff professional development, registration and meeting expenses (\$730), purchase of teacher incentives (\$202), and purchase of basic routine and operational supplies (\$800). It is essential that the principal maintains adequate internal controls; to assure students, parents and all concerned taxpayers that school funds are handled properly and for the direct benefit of students only.

We also noted some areas of non-compliance related to cash receipts and deposit processing. Receipt forms were not always properly completed with the required information; for example, the receipts did not indicate the source of funds or the activity account to credit. Additionally, receipt numbers were not always referenced on deposit tickets; some deposit tickets were not dated; and all checks and/or money orders included in the deposit were not individually listed on the deposit tickets. In general, these deficiencies revealed a lack of control over cash processes, and limited the assurance that receipt, ledger and deposit records were maintained accurately and complete.

We also determined that the school did not always follow cash management procedures related to cash disbursement processing. For instance; checks were not always properly requisitioned and or approved; and requisitions were not always filed in the appropriate month and in sequential order by check number. Additionally, checks did not always have the proper support documentation, which limits the assurance that funds were always spent as intended.

Additionally, we found controls lacking over fundraising activities. Proper procedures were not always followed for approval by the Principal and Assistant Superintendent, as required. In some cases, approval was obtained after the fundraiser was completed. Also, Profit and Loss Statements were not always completed within the required time frame, which impaired the principal's ability to evaluate the success of a particular fundraising event, and the sponsor's ability to account for the money raised. We also noted that two fundraising events were held where proceeds were not used for the direct benefit of the school or its students; a violation of fundraiser guidelines.

Our review of athletics revenue and ticket management processes revealed inadequate controls regarding custody of game tickets, as well as accountability of ticket sales. We noted that unsold tickets were not maintained in the custody of the bookkeeper, as required by the Athletics policy, and no reconciliation of ticket sales was performed to provide assurance. As result, there is an increased risk of errors or inaccuracies in reporting of ticket sales; furthermore, opportunities for fraud and abuse of funds are significantly increased.

The audit also determined the need for the Cash Management department to take a proactive role in ensuring that accounting services are in place to perform monthly bank reconciliations and preparation of other required financial reports within the proper timeframe, in order to ensure compliance with district policies and procedures.

OBJECTIVE, SCOPE and METHODOLOGY

Objective

To determine whether school personnel properly managed and administered the school's General School Funds and if monies from the school's account were properly accounted for and spent for the benefit of students; and in compliance with the School Financial Procedures Manual (SFPM).

Scope

The subject matter of our review was DIA school's cash receipts and disbursements for the period July 1, 2011 through December 31, 2012.

Methodology

To meet our objective, we reviewed supporting documentation for cash receipts and disbursements to assess the use of these funds. We also reviewed the supporting financial ledgers, bank statements and reconciliations to determine whether they supported the completeness and accuracy of the transactions. In addition, we conducted interviews with the Principal and other school personnel involved with financial transactions. Furthermore, we reviewed the regulating policies, School Financial Procedures Manual (SFPM), and the School Administrative Financial Manual (SAFM), to assess the extent to which DIA is operating in compliance with the school district's financial guidelines and procedures. Our audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDINGS

General School Funds Used In Lieu of District Discretionary Funds

Cash Management's policies and procedures require that general school funds be spent for the direct benefit of students, or on expenditures that are directly related to student extracurricular and/or co-curricular activities. Moreover, such funds may not be used to pay for staff professional development, staff appreciation, and or basic routine operating or maintenance expenses incurred by the school; which typically would be paid for with the school's discretionary funds.

For the audit period July 1, 2011 through December 31, 2012, unallowable or inappropriate expenditures totaling \$1,732 were paid from the school's checking account. Of this amount, the school spent:

- \$730 for staff professional development, conference registration and meeting expenses,
- \$202 for teacher incentives,
- \$800 for painting classrooms and purchase of parking gate openers for staff

These goods and services should have been paid for with the school's budgeted funds in accordance with the policies and procedures issued by the Office of Procurement and Logistics.

Untimely Bank Reconciliations

We noted that bank reconciliations for 4 out of 6 months sampled (or 67%) were not prepared, reviewed, or approved by the principal within 15 days following month-end, as required. For example, reconciliations for the months of July and October 2011, and January and May 2012 were not completed until March and end June 2012; respectively. We recognize that the principal does not have any control over scheduling of the bank reconciliation preparations, and execution of a contract for accounting services is the responsibility of the Division of Finance (Cash Management department). However, the annual contract for FY2012 School Accounting Services was not executed until January 2012, and was not renewed for FY2013 until mid-September 2012; yet the firm was required to prepare reconciliations for each fiscal year beginning with the month of July.

Bank reconciliations are part of the school's internal controls over cash; and therefore the absence of timely completion and review of monthly reconciliations reduces the assurance of the completeness and accuracy of the school's financial statements. Accurate and timely bank reconciliations can uncover differences that may need further investigating, and can uncover errors and irregularities more quickly, thus enabling the school to take corrective action. Furthermore, the SFPM requires the bank reconciliations, cash receipt, cash disbursement, and/or general ledger be submitted to the department of Cash Management by the 15th of the subsequent month. In order for schools to comply with this procedural control, the Division of Finance should implement timely execution of the annual contract for accounting services, to ensure that such services are in place at the start of each fiscal year in July.

Inadequate Cash Receipt and Deposit Processing

We tested the receipt process and bank deposits for the audit period, and noted the following areas of non compliance:

- Instances where the source of funds and activity account being credited were not documented on receipt form (in 5 out of 12 items tested, or 42% exception);
- Instances where the receipt number was not referenced on the deposit ticket (in 2 out of 10 items tested, or 20% exception);
- Instances where the deposit ticket did not indicate the individual checks included in the deposit (in 3 out of 6 items tested, or 50% exception)
- Instances where the deposit ticket was not dated (in 2 out of 6 items tested, or 33% exception)
- Instances where funds were not deposited timely (in 2 out of 12 items tested, or 17% exception).

Incomplete and or incorrect receipt and deposit records impact deposit verifications intended to identify potential frauds and errors. Furthermore, untimely deposits increase the risk of theft, loss or misappropriation of school funds; as well as the risk that the bank may not accept untimely check deposits (i.e. stale-dated checks).

The SFPM requires that receipt forms be accurately completed to provide an audit trail of all funds received for deposit. Funds should be recorded on pre-numbered triplicate receipt forms, or Form AC-1 (Report of Cash Deposit). The receipt should clearly document the purpose of receipt, source of funding and the activity account being credited. Additionally, all deposit tickets should reference the receipt number of funds being deposited. Likewise, all checks and/or money orders included in the deposit should be listed individually on the deposit ticket (by check or money order number and dollar amount). Accuracy is very important to ensure that funds deposited agree to receipt, ledger and deposit records. At conclusion of the fieldwork, this issue was discussed with school officials who acknowledged the importance of accurate and complete receipt and deposit records, and informed us that cash management procedures would be carefully followed for future improvement.

Inadequate Cash Disbursements Procedures

For the cash disbursements we examined, we noted that the school did not always follow cash management's procedures related to cash disbursement processing. We identified the following areas of noncompliance:

- Instances where requisitions were not filed in the appropriate month, and in sequential order by check number (in 9 out of 15 items tested, or 60% exception);
- Instances where checks were not signed by two authorized signers (in 3 out of 15 items tested, or 20% exception);
- Instances where check disbursement was not made in a timely manner (in 5 out of 15 items tested, or 33% exception);
- Instances where the purpose for expenditure was not documented on check request form (in 5 out of 15 items tested, or 33% exception);

- Instances where check request did not document proper approval (in 4 out of 15 items tested, or 27% exception);
- Instances where check request was not supported with relevant documentation (in 4 out of 15 items tested, or 27% exception);
- Instances where activity account information on checks did not agree with general ledger records (in 6 out of 15 items tested, or 40% exception)

The SFPM indicates that a check request form (or reimbursement request form) should be completed in advance of the expenditure, and authorized in writing by the principal, before the bookkeeper disburses funds. Checks should be issued only when supported by original vendor invoices or receipts specifying the goods/services purchased, purpose for the expenditure and the amount owed to the vendor. District guidelines also require that funds availability be verified before check issuance, and the activity account to be charged should be indicated on the check request form.

Without these basic oversight procedures, the risk that general school funds may be misused, or misappropriated, is significantly increased.

Noncompliance with Fundraiser Policy

During our review of fundraiser documentation, we identified some deficiencies related to these activities. For example, not all fundraisers were approved by the Principal and Assistant Superintendent, as required; and in some instances, we noted that the approvals were obtained after the fundraiser was completed. We also noted that fundraiser Profit and Loss Statements were not completed within the proper time frame (i.e. 5 days upon completion of the fundraiser). Untimely completion of these statements limits the ability for the principal to evaluate the success of a particular fundraising event, and the ability of the sponsor to account for the money raised.

The SFPM states:

1. No fundraising activity should take place without **prior** written approval of the Principal (and Assistant Superintendent). A completed and approved “**Request for Approval for Fundraising Activity**” form should be maintained in school files for audit purposes.
2. The fundraiser sponsor is responsible for completion of a “**Profit and Loss Statement**” not more than **five (5) days** after the fundraiser has ended. A completed copy of this statement should be submitted to the bookkeeper/school treasurer and forwarded to the principal for review and approval. Copies of all invoices, receipts, etc. must be attached to the form.

Furthermore, we also noted that the school conducted 2 fundraising events where proceeds were not used for the direct benefit of the students. For example, one event was for the benefit of “All for Kids Co”; and another one was held for the benefit of the “Komen Detroit Karmanos Institute”. Although these are both worthy causes, neither one was held to raise funds “for the direct benefit of students”; which is essentially the reason that schools are encouraged and or authorized by the district to conduct fundraising events. Proceeds that are generated as result of

school fundraisers are considered general school funds; which are to be spent only for the direct benefit of the students that participated in the fundraiser event. Schools are not permitted to donate school funds to any individual or group outside of the school, because this is generally considered a gift of public funds; no matter how worthy the cause. School officials did not agree with this specific finding, and rationalized that the cause behind conducting these fundraisers would be of benefit to the students.

Noncompliance with Athletics Policy as relates to Cash Processes

The audit also revealed significant noncompliance with district regulations that are designed to ensure internal controls over athletics cash processes. We noted that the Athletics Director at DIA personally acted in sole control of all transactions and activities related to athletics; even though district procedures require that the responsibilities of ticket custody and sales be separated to ensure reconciliation and accountability of athletics revenue from ticket sales.

The athletics director maintained the tickets locked in his office, controlled ticket distribution and receipt of cash from ticket sales, recorded the ticket numbers on the “Athletics Ticket Sales Report”, and personally prepared the ticket sales revenue for deposit. We found no evidence that ticket sales were ever reconciled with the funds actually delivered to the bookkeeper for deposit; since the funds were bagged before being remitted to the bookkeeper for deposit pick-up. Also, we were informed that the athletics director did not reconcile the unsold tickets with the bookkeeper, which would assist in verifying the accuracy of the ticket sales report.

The SFPM states:

“A Report of Ticket Sales must be used to record sales of tickets for athletic events. The tickets should be in the custody of the school treasurer/bookkeeper, who will supply the athletic coordinator with the ticket roll(s) to be sold at the gate prior to a game. Pre-sales made from the school’s bookstore (or other venue) should be accounted for separately from gate sales. ... Also, for both pre-sales and gate sales, the beginning ticket number and last number of the tickets sold should be documented on the sales report. The remaining (unsold) tickets should be returned for custody with the school treasurer/bookkeeper. Upon completion of a game, the school treasurer/bookkeeper or responsible school official should ensure that game receipts from pre-game and gate sales are counted, verified and immediately bagged for deposit into the district’s athletics revenue depository account. The total amount of funds collected (and deposited) should agree with the number of ticket sales reported on the ticket sales report(s).”

One individual should not have sole authority for collection, receipt and custody of large amounts of funds without any checks and balances. The segregation of conflicting duties and dual control (i.e., two people involved) over ticket distributions and sales is necessary to ensure that revenue collected from ticket sales is accurately reported and deposited; and further prevents opportunities for fraud.

CONCLUSION

School principals are ultimately responsible for the collection, distribution, and accounting for all general school funds. The principal is responsible for protecting the interest of students and taxpayers, and upholding the public trust vested in this position. The School Financial Procedure Manual (SFPM) is provided as a vital tool for all school personnel to refer in performance of their financial responsibilities. Going forward, the Principal should refer to the SFPM and other written guidance referred to therein to ensure compliance with district policies and procedures. The basic purpose for collecting or raising and expending of activity funds must be for the direct benefit of the students or for the general benefit of the school. Additionally, GSFs should not in any way be used to support purchases or activities outside of the students' direct involvement. Finally, the lack of segregation of duties over incoming athletic revenue is a breakdown of internal controls that reduces accountability and exposes the school to an increased risk of loss due to theft or misappropriation. The principal has the ultimate responsibility to ensure this is addressed.

RECOMMENDATIONS:

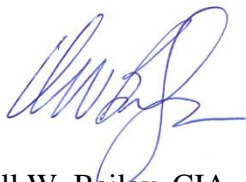
We recommend that the Principal of DIA take action to ensure:

- That general school funds are only used for the direct benefit of students;
- That all incoming funds are receipted, accurately recorded in school ledgers and agreed to deposit records;
- That cash disbursement procedures are adequately followed, and that expenditures from the account are in compliance with district policies and procedures;
- The segregation of duties and proper accountability for athletics ticket sales and revenue;
- That proper procedures are followed regarding the conduct of fundraiser activities, as well as assuring that proceeds are used for the direct benefit of students only.

We recommend that the district's Department of Cash Management:

- Ensure procedures are in place to provide accounting services, including preparation of monthly bank reconciliations, in a timely manner.

Our review was performed in accordance with U.S. Government Accountability Office (formerly the General Accounting Office) Government Auditing Standards and Standards of the Institute of Internal Auditors. This report is intended solely for management and should not be used for any other purpose. This restriction is not intended to limit the distribution of the report which is a matter of public record.



Odell W. Bailey, CIA
Deputy Inspector General for Audit

AUDITEE COMMENTS

DETROIT PUBLIC SCHOOLS

MEMORANDUM

To: Bernadette Kakooza, CIA

From: Beverly A. Hibbler, Principal, Detroit International Academy



Date: April 15, 2013

Subject: Response to Audit Report (July 1, 2011 – December 31, 2012)

Please note the following written responses to the DIA audit findings for the period listed above:

1. The Youth Development Commission donated funds (\$1854.90) in November 2011, for the school's discretionary use including physical school improvements, such as painting classrooms as well as teacher incentives. This addressed use of funds for direct benefit of the school or its students.

Findings: Unallowable/inappropriate expenditures totaling \$1,732

- a. \$730 for staff professional development, conference registrations and meeting expenses
 - b. \$202 for teacher incentives
 - c. \$800 for painting classrooms and parking gate openers
2. Bookkeeping accountability and fiscal integrity will be followed according to the district's policy as stated in the School Financial Procedures Manual. All post-audit transactions will comply with the following:
 - a. Fund source and activities will be identified for every transaction
 - b. Receipts and deposit slips will be dated for every transaction
 - c. Check numbers will be listed on all deposit slips as applicable
 - d. Checks will be properly requisitioned
 - e. Profit/Loss statements will be completed in a timely manner
 - f. Funds will be used for the direct benefit of school and/or its students
 - g. Checks will be filed in sequential order
 - h. School funds will no longer be utilized for teacher incentives
 - i. Athletic revenue and ticket management will incorporate appropriate controls
 - i. Assigned personnel will maintain custody and secure unsold tickets
 - ii. Reconciliation of ticket sales will be performed

Unaccounted athletic sales tickets (3) were due to tickets sold at two different locations (Ben Carson and DIA). These two schools share athletic activities.

DIA will request the Cash Management department to ensure accounting services to perform monthly reconciliations and prepare financial reports in a timely manner.